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Irish Life

Revenue Approval Process Q&A

Pension Advisory Services

What is changing?

The Revenue approval process for new and existing one-member company pension plans is changing from 1st August 2018. The key points are:

- No change to the requirements for setting up a new one-member company pension.
- Proof of salary requirement has been extended. Recent payslip or P60 for current employment is required on all top-ups and transfers to one-member company pensions.
- For top-ups and transfers information is required about other pensions the client has, in particular the current values, and the current contributions, if any.
- Company pension to company pension transfers can be accepted once all requirements have been received and an application for Revenue approval has been made. We no longer have to wait for Revenue to confirm that approval has been granted.

What is Revenue approval?

In order to make sure that a client is eligible to be in a company pension scheme there are a number of checks that must be run that are linked to the application for Revenue approval. The two main checks are that the contributions are within maximum funding rules, and that the client is in receipt of PAYE earnings from the relevant employer.

At commencement or on a top-up (other than auto-escalation) on a company pension we require details of any other pensions the client has, in particular the current values and the current contributions, if any. These details are used when we check that contributions are within maximum funding rules.

Proof of PAYE earnings is done by way of a recent payslip or P60. We can accept an original, a photocopy or a scanned copy.

In practise very few cases fail these tests, but we are required to check every case when it is set up, when there is a top-up or transfer, and at claim stage. By running these checks through the life of the plan, we can catch any issues as they arise, rather than only discovering a problem at retirement when it might be too late to fix.

What is Revenue pre-approval and why are we moving away from this?

Revenue operates two approval processes. One is called pre-approval, or rapid approval, and the other called full-approval or discretionary-approval. Pre-approval was a simplified process where Revenue did not review each individual case, and instead audited cases from time to time. This process was used for lower premium cases where the total pension contributions are below the 15% to 40% tax relief threshold (i.e. the same tax relief threshold as for PRSA contributions).

For pre-approval cases Revenue gave a generic code to each life office which began "RBP", for example Irish Life's pre-approval code was RPB1IL.

From 1st August, Revenue are applying a stricter interpretation of legislation and will require the client to provide information every year about their salary and pension contributions, even if these have not changed. Because of this Irish Life will not set up new company pensions using pre-approval from 1 August. Instead all plans will be set up using Revenue full-approval, where the maximum contribution checks are done at commencement, whenever there is a transfer or top-up (other than auto-escalation), and at claim stage.

What is Revenue full-approval?

Under the full-approval process, Revenue reviews each individual case and grants an approval number for that scheme.

Going forward we will operate the Revenue full-approval process for all new one-member company pensions. Cases currently on pre-approval will be moved to full-approval when there is a premium top-up or transfer received that puts amount paid into all schemes for that employee over the 15% to 40% age-related tax relief limits for that year.

Who does this affect?

Irish Life are applying the same requirements to all one-member company pension plans. While the recent Revenue audit and industry discussions focused on pre-approval cases, in order to protect the approval status for clients we are applying the learnings from that audit across all one-member company pension plans.

What are the requirements for New Business (AP or SP)?

To commence a new one-member company pension plan there is no change to what is needed:

- Completed company pension application, including details of the value and current contributions to any other pensions the client has
- Payslip or P60 as evidence of salary from current employment

As is the case currently, the contributions must be within Revenue maximum limits based on current salary and including information on any other pensions the client has.

What are the requirements for Existing Business (AP or SP)?

The following is needed for a regular premium increase or single premium to an existing one-member company pension:

- Confirmation of the amount of the regular premium increase and/or single premium
- Confirmation of funds and commission
- Details of the value and current contributions to any other pensions the client has. This information can be included on our company pension top-up form.
- Payslip or P60 as proof of salary from current employment

As currently, the requirement continues to apply that regular premium and single premium increases must be checked to ensure that the proposed contributions are within Revenue maximum limits based on the client's current circumstances.

What are the requirements for Transfers?

The following is needed for a transfer into a one-member company pension:

- The member and the trustee of the receiving scheme should complete our company pension transfer in form
- Confirmation of funds and commission
- Details of the value and current contributions to any other pensions the client has. This information can be included on our company pension transfer form.
- Payslip or P60 as proof of salary from current employment. That is, the employer of the receiving scheme

The transferring office will also have its claims requirements, and it will require a 'willing & able' letter from the receiving administrator. This 'willing & able' letter must confirm the Revenue approval status of the receiving scheme.

Up to now for all cases the receiving scheme had to give a pre-approval reference or a full-approval reference. In order to get a full-approval reference we had to wait until Revenue had reviewed the individual case and issued confirmation that the scheme was approved. This process could take from 6 to 12 weeks.

From 1st August a pre-approval reference cannot be used for a 'willing & able' letter. This has been withdrawn as Revenue were concerned this process was being abused, for example cases set up for €50 pm to get immediate pre-approval, and then shortly afterwards received a transfer value or large SP.

However, as an alternative from 1st August the 'willing & able' letter may confirm for transfers from another company pension scheme or PRB that either

- the scheme has received full-approval and include the Revenue reference number (known as a SF number), or
- confirm that an application for Revenue approval has been made including all requirements and include the Revenue application reference number (known as a SR number).

It is for the transferring trustees or life office in each case to decide that they are willing to accept a Revenue application reference number, rather than waiting for confirmation that full-approval has been granted and the Revenue reference number. However, since the introduction of the payslip / P60 requirement in 2015 it has been very rare for Revenue to refuse approval. For example, no cases submitted by Irish Life so far in 2018 have been refused approval.

Transfers from a PRSA can only be made to a company pension that has actually been granted full-approval by Revenue. Otherwise the client risks having to pay income tax, USC and PRSI on the transfer.

As currently, it will continue to be the case that Revenue approval cannot be applied for until after the start date of the scheme. It also continues to be the case that a meaningful employer contribution is required.

Why is proof of salary being requested more often than in the past?

Revenue has advised that they have come across many examples of company pension schemes that have been set up for a member who is not receiving any income from the employer. Revenue understands that this is particular common with directors in the early years of a business, or during a downturn in business. However, it is a requirement of legislation that the member must be in receipt of remuneration from that employer before a company pension can be set up, and only years during which a member received earnings can be included as a year of service for pension purposes.

An additional difficulty in recent years is increasing numbers of retirement claims where the member left the employer a number of years ago, and does not have proof of salary relating to that employment. This leads to delays, and also risks that members will not get full credit for benefits they are entitled to. We expect to see an increase in the number of cases where proof of salary is difficult to get due to changing work cultures where people reaching retirement age have had a number of employers during their working life. We also expect GDPR to have an impact, as former employers will not have been able to indefinitely keep salary and other information about an ex-employee.

In practise it is very rare for a member to exceed Revenue maximum benefit limits. But in order to ensure that members get the correct benefits that they are entitled to it is important to check on commencement, on a regular basis throughout the life of a plan, and on leaving service or retirement, what the maximum limits are for that scheme. Indeed for a 20% director, you may wish to provide evidence of 3 years consecutive salaries from time to time so that this information is on record. Gathering proof of salary on a regular basis will allow us to carry out these checks as required based on the right information, will reduce delays at claim stage, and ensures members get the correct benefits.

When does it come into effect?

This applies from 1st August 2018.